

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0466-01  
Bill No.: SB 19  
Subject: Health Care; Insurance - Medical; Taxation and Revenue - Income  
Type: Original  
Date: January 21, 2003

---

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
General Revenue	(\$66,719)	(\$451)	(\$451)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$66,719)</b>	<b>(\$451)</b>	<b>(\$451)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

**Department of Insurance (INS)** officials assume Section 143.166 will allow a tax deduction for contributions made to a medical savings account to the extent not deducted on the federal tax return. No fiscal impact is expected to the INS.

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** state this proposal would allow a state tax deduction for those who contribute to a “medical savings account.” The cost of this proposal hinges on the number of individuals/corporations who would be induced to participate in such a program as well as the amount of money they would place in such an account. BAP has no empirical basis for estimating these factors. The Division of Accounting may have data regarding state employee participation in cafeteria plan programs. BAP assumes this bill would have no impact on the Office of Administration.

Officials of the **Department of Revenue (DOR)** assume this legislation allows a deduction for up to \$2,000 for individuals and \$5,000 for a family, equal to the amount the taxpayer contributes to a medical savings account. A taxpayer will not be allowed a deduction on the Missouri return if a federal deduction has been taken.

ASSUMPTION (continued)

DOR assumes that the employer will track the amount an individual contributes to a medical savings account and report that amount on Form W-2. DOR assumes the need for one temporary tax season employee (a cost of \$6,067) for every 130,000 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. Also, DOR will need one Tax Processing Tech I for every 30,000 errors generated by this legislation. DOR's impact is based on the assumption that the employer will track and report to DOR the amount an employee contributes to the medical savings account. However, additional FTE will be requested during the normal budget process, if the contributions are not tracked by the employers.

Customer Assistance anticipates additional telephone calls, walk-ins and delinquencies. One Tax Collection Tech I is needed for every 24,000 additional calls on the 751-3505 telephone number due to this legislation. One Tax Collection Tech I will be needed for every 15,000 calls on the 751-7200 (delinquency) line due to billings on denied deduction/documentation issue.

DOR assumes this legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,730 hours of contract labor at a cost of \$57,712. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs, with on-going costs of \$451.

In response to a similar, prior proposal, DOR assumed the number of taxpayers eligible for this deduction was unknown. However, the DOR did not anticipate a large number of taxpayers would be eligible for the state deduction due to the fact that they would take the federal tax deduction. Therefore, the DOR did not request FTE at that time. However, if the DOR was incorrect in its assumption, FTE would be requested through the normal budget process.

According to this proposal, if a taxpayer takes a deduction on the federal return, they do not qualify for the deduction on the Missouri return. **Oversight** does not envision a circumstance where a taxpayer would not take the deduction on the federal return and qualify for the deduction on the Missouri return. Therefore, for purposes of this fiscal note, **Oversight** will reflect the fiscal impact of this proposal as zero and only show the programming costs for DOR.

**This proposal could decrease Total State Revenues through tax deductions for contributions to medical savings accounts.**

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<b>GENERAL REVENUE FUND</b>			
<u>Loss - General Revenue</u>			
Medical Savings Account Contributions	\$0	\$0	\$0
<u>Costs - Dept. of Revenue</u>			
Programming costs	<u>(\$66,719)</u>	<u>(\$451)</u>	<u>(\$451)</u>
<b>TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$66,719)</u></b>	<b><u>(\$451)</u></b>	<b><u>(\$451)</u></b>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2004 (10 Mo.)	 FY 2005	 FY 2006
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

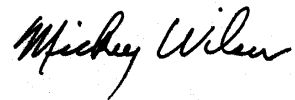
This proposal allows a tax deduction to those who contribute to medical savings accounts. It provides that any person who is eligible for a federal tax deduction for contributions made to medical savings accounts will also be allowed a state tax deduction. Eligible persons, however, may not take both a federal and a state tax deduction for such contributions. The maximum deduction allowed is \$2,000 per individual and \$5,000 per household and there is no limit on the number of participating policies in Missouri. The Department of Revenue will administer the program.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

L.R. No. 0466-01  
Bill No. SB 19  
Page 5 of 6  
January 21, 2003

SOURCES OF INFORMATION

Department of Insurance  
Office of Administration  
Division of Budget and Planning  
Department of Revenue

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
January 21, 2003